

I. INTRODUCTION

With the decision by Morocco and the United States in April, 2002 to pursue a bilateral Free Trade Agreement (FTA), USAID is in the process of developing a new country strategy that focuses on promoting increased opportunities for trade and investment and employment creation, while working to reinforce and build upon political, legislative and economic reforms undertaken to date.

In developing the new strategy, USAID places a high priority on working with the Moroccan government and other multilateral and bilateral donors and partners to maximize the impact of its investments through implementing programs that are coordinated with and complementary to other donor and partner investments in support of Moroccan development objectives.

The purpose of this report is to provide a summary of development investments by major donors and partners for the purpose of aiding USAID in developing a country strategy that takes into consideration, complements and reinforces national and international investments in Morocco's future.

Information presented in this report has been gathered from a number of sources. These include Organization for Economic Cooperation and Development (OECD) data on overall development assistance levels, interviews with representatives of principal donors and documentation provided from donors on their development activities in Morocco. Every effort has been made to provide program and project information based on published reports and documentation of donor activities.

This report focuses on current development assistance with very limited information on completed programs, projects and other past investments. It is intended to represent a snapshot of major donor programs, not to provide detailed or exhaustive information. Given the limited, snapshot nature of this report, there will be gaps in information on individual programs, especially as concerns smaller investments.

There is not at this time any one annual source for detailed information on development cooperation such as was last published by UNDP in 2000 summarizing donor activity in 1999. UNDP has decided to renew publishing the annual report on development cooperation and is in the process of gathering data on activities for the 2000-2002 time frame and has generously shared the information received to date to assist in the development of this report. Another valuable source of information is the study undertaken by the French Embassy in 2002 summarizing donor interventions by different sectors over time as a catalyst to promote improved annual reporting and coordination of development cooperation.

A working group has recently been established with UNDP, key development partners and government officials to assess information needs and develop an effective format for future annual reporting of development cooperation in Morocco. If successful, the end product will reduce the inefficient duplication of multiple assessments and provide an important tool to improve information sharing and promote collaboration.

II. DONOR ASSISTANCE LEVELS

While total Official Development Assistance (ODA) commitment levels decreased an average of 10% for the period from 1997-2001 in comparison to the previous five years¹, Morocco continues to receive important assistance levels from a number of sources. The majority of donor assistance to Morocco comes from the European Union (EU) and its member states, with France as the largest single bilateral donor with OECD reported gross ODA assistance to Morocco of \$212 million in 1991.

OECD reported ODA commitments for the period 1997-2001 indicate that 71% of assistance was in the form of grants with 29% coming through loans or other long-term capital. Donors at this time utilize a diverse variety of instruments including grants, concessional loans, credit lines, debt swaps (including debt for aid programs) and loan guarantee funds.

EU and World Bank (WB) assistance levels are dominated by policy and sector reform support while bilateral donor assistance focuses more on priority sectors with the largest investments in the area of water resources management and use. There is also a geographical priority on northern Morocco followed by the Souss-Massa-Draa region. Investment and development banks, the EU and bilateral donors (notably France and Japan) continue to provide loans and grants in support of large infrastructure projects including road networks, potable water supply, irrigated agriculture and electrification.

III. DONOR COORDINATION AND PRIORITIES

There is no formal mechanism for coordination of overall development cooperation in Morocco. The Government of Morocco tends to work with donors individually rather than as a collective group and UNDP does not play a coordinating role as it does in some countries. Structured coordination of assistance exists within the EU through regular meetings of its members, and among the different Arab Funds through bi-annual coordination meetings. The EU and the WB collaborate on a number of key reform programs include basic education, health and administrative reform (WB program still under development for FY 2004 agreement).

¹ OECD Official Development Assistance Commitments, 1992-2001. Appendix 1

The lack of a formal overall coordination does not mean that there is no donor coordination or communication. The most structured sector coordination is in Education where the Ministry of Education has promoted regular meetings with participating donors. Working groups have been formed over time amongst different donors and officials around various themes from governance to primary and reproductive health care, to water resources management and use.

The Government of Morocco (GOM), working with major donors, has also mobilized donor coordination, investment and support around large infrastructure undertakings such as the PAGER project to provide 95% rural potable water coverage by 2010. There is also specific coordination amongst donors and ministries and between WB and EU in reform projects. WB, USAID and others have worked closely in development and implementation of social priorities programs and there is extensive coordination of investments to strengthen the professional training system.

There is a strong interest expressed by donors in improving coordination, as each looks to extend limited resources for the broadest impact. Different donors did, however, place limits on the realistic extent of partnerships due to differing priorities, funding mechanisms and time frames for investments. General agreement was expressed on the need for improved information sharing, greater communication to coordinate actions and the need for the GOM to play a more pro-active role in coordinating different interventions.

The current coordinated effort to develop an effective annual reporting process and documentation may help to serve as a catalyst for donor coordination through improved information sharing.

A. Multilateral donors

1. World Bank

The World Bank program in Morocco has gradually evolved over recent years away from investment projects focusing on structural reform to policy reform support through a variety of mechanisms including more flexible program loans, technical assistance, analytical and advisory services and high leverage, catalytic projects to achieve development outcomes.

This evolution followed a portfolio review in the late nineties that resulted in the cancellation of approximately \$700 million and in a reorientation of lending towards support to rural poverty alleviation programs and policy reform support. Priority areas for World Bank assistance to Morocco are:

- Promoting human development and inclusion policies in the "second" Morocco (rural focus on the delivery of basic education, health and infrastructure services, and on gender equality).
- Enhancing conditions for economic growth and private sector development;
- Reducing vulnerability of the poor;
- Improving public governance.

Recent examples of (a) small, catalytic projects aimed at testing new institutional mechanisms for the delivery of services and promoting innovative services, or (b) broad policy reform programs include:

- Small Catalytic projects;
 - Social Development Agency (SDA) Project to develop and strengthen participatory and decentralized programs to reduce poverty, fight exclusion and to reduce vulnerability of poor, especially in rural areas (\$5M)
 - Adult literacy project to test innovations in program management and enhancement of teaching quality to enable government to build adult literacy training system with the goal to halve adult illiteracy from 50% to 25% by 2010 (\$4.1M)
- Policy Reform Support;
 - Information Infrastructure Sector Development to support ongoing reform agenda (\$65M).

There has also been an increase in non-lending activities including analytical and advisory services. These services have included policy notes in direct support of reforms, such as education, the use of privatization receipts, the creation of a social fund, and growth strategies. There have also been a number of broader studies, relating to rural development, the financial sector, labor markets, private sector development, and municipal finance. Currently, priorities for analytical and advisory services include: support in budget modernization, agriculture strategy, and decentralization and municipal management, including priorities for private sector financing of priority municipal infrastructure.

The Current World Bank portfolio consists of fifteen active projects with a net commitment amount of \$ 462.2M.² In relation to USAID strategic objectives, current projects encompass:

Population / Health (\$66M)

- Health Financing and Management Project

Economic Growth (\$236M)

- Pilot Fisheries Development, Sustainable Coastal Tourism Development, Information Infrastructure Sector Development, Railway Restructuring Project, Irrigation Based Community Development, Adult Literacy, Social Priorities, Social Promotion and Labor Development, Fes Rehabilitation

Environment (\$64M)

- Water Resources Management, Sewerage and Water re-use project, Lakhdar Watershed Management Pilot Project

Democracy and Governance (\$10M)

- Social Development Agency Project, Legal and Judicial Development Project

Basic Education (\$54M)

- Basic Education Project

Disbursement to date are \$87.5 million (19% of commitment) and unspent balances on currently active projects will normally be closed when scheduled end of project dates arrive (projects may be extended for priority reasons - e.g. should health sector reform expand to include support for mandatory national insurance coverage). With the move to more flexible program loans, combined with small catalytic projects and knowledge based advisory services, there should be fewer obstacles to disbursing of funds in the future.

In addition to the above current loan package, the World Bank has provided a Global Environment Fund grant of \$10 million for a Protected Areas Management Project (2000-2006) and a \$184 million loan guarantee to bridge the financing gap for the development of the Jorf Lasfar Power Project.

Looking to the future, the World Bank has a portfolio of projects under development that address sectors of primary concern to USAID and provides ongoing opportunities for close collaboration to achieve objectives. The Government of Morocco's priority for WB programs is in policy reform, most importantly administrative reform, followed by basic education reform. Programs are under development for anticipated approval in FY2004 (beginning August 1, 2003) for administrative reform and FY 2005 for basic education reform.

² World Bank Operations in Morocco fact sheet as of January 1, 2003

Programs currently under development for FY 2003 approval include:

- Rainfed Agricultural Development (FY2003 approval)
- Real Asset Reform Management (FY2003 approval)

In addition, several programs are under development, or are currently being studied or are the subject of upcoming missions. These include:

- New intervention in low-income housing reform program for approval in the 2004 or 2005 fiscal year
- Judicial Reform (FY 2005/2006) as a follow-on to current program
- Sebou River Basin development (F2005)

The World Bank's International Financial Corporation (IFC) is opening an office of the North African Enterprise Development Fund (NAEDF) in Morocco. The fund, part of the World Bank's development projects in the Middle East-North Africa region (MENA), will support small and medium-sized enterprise development in Morocco.

2. European Union

European Commission Delegation in Morocco

The European Community is currently the largest multilateral donor in Morocco. The Euro-Mediterranean Partnership (MEDA) program is the principal vehicle through which the European Union offers technical and financial assistance to Morocco. The MEDA program provides grants in support of three broad objectives:

- Reinforcement of political stability and democracy
- Creation of a free-trade zone by 2012
- Development of economic and social cooperation, taking into consideration the country's human and cultural dimensions

The first MEDA project (MEDA I), launched in 1995, committed \$667 million to finance 30 projects during the period of 1996 - 2000 to assist the economic transition and reinforce the socio-economic equilibrium. Disbursement of allocated funds under MEDA I proved difficult due to the complexity of the approved terms and conditions at all levels, whether for project definition or implementation.

The terms and conditions were simplified with the initiation of the MEDA II program governing EU assistance to Morocco for the period 2001 to 2006. The initial commitments under MEDA II program encompassed six projects totaling \$276M in support of large water, financial, and health sector structural adjustment programs, judicial reform and smaller commitments for integrated development and solid waste management projects.

Under the MEDA II program, Morocco and the EU agreed upon a "National Indicative Program" (PIN) in January 2002. Under the PIN, the EU committed an additional \$450 million in grant funds for the period 2002-2004 to fund projects in priority sectors:

- Economic and Commercial Sector Promotion to accelerate implementation of the Association Agreement EU-Morocco in support of creating a judicial and regulatory environment favorable for investment as part of implementing EU-Morocco free trade agreement
- Development of the northern Provinces and support to the border control and migration policies designed to improve management of migratory flows
- Environmental sector support with interventions in three priority sectors: sanitation improvements, industrial cleanup, and combating desertification

At this time, the EU has 36 active projects with a total net commitment of approximately \$1,150M. These projects demonstrate the wide range of EU investments in Morocco and reflect EU support for the successful implementation of the Morocco-EU free trade agreement.

In terms of USAID's strategic objectives, the EU program may be broken down as follows:

Population / Health (\$95M)

- Structural Adjustment, Health Sector Management

Economic Growth (\$540M)

- Structural Adjustment Financial Sector, Housing Development, Industrial Promotion, Infrastructure Development, Microfinance, Professional Training, SME/SMI Promotion, Trade and Investment, Agricultural Production

Environment (\$275M)

- Water Sector Structural Adjustment, Water and Sanitation in Rural, Urban and Industrial Settings, Solid Waste Management, Geological Cartography

Democracy and Governance (\$244M)

- Structural Adjustment for Public Administration and Transportation Sectors, Administrative Reform (Support for Privatization), Judicial Reform, Cultural Centers Equity Promotion

Basic Education (\$21M)

- Basic Education Support

European Investment Bank (EIB)

Since 1978, the EIB has advanced more than \$ 2 billion for large-scale projects contributing to the development of the Moroccan economy. Examples include: the first EU-Morocco power grid interconnection via the Strait of Gibraltar; high-voltage electricity transmission facilities and power supplies to rural areas; upgrading of interregional and international telephone networks, and; large-scale water management schemes (sewerage systems in several coastal towns, irrigation of farmland, etc.). The EIB has also helped to finance Small and Medium Enterprises (SMEs) in the productive and cooperative sectors through loans intended to facilitate joint ventures between Moroccan and European operators.

In 2002, the EIB stepped up its cooperation with the Mediterranean partner countries by introducing its new “Facility for Euro-Mediterranean Investment and Partnership” (FEMIP), which will enable the EIB to gradually scale up its annual lending activity in the region from \$ 1.6 billion to \$ 2.1 billion. The EIB is especially committed to supporting the efforts of these economies to prepare for market liberalization with a view to the creation of a free trade zone with the EU by 2012.

Recent EIB loans to Morocco include:

- \$21M in support of National Potable Water Office (ONEP) for drinking water and environmental protection
- \$31M for the repair, strengthening and upgrading of basic infrastructure of several Moroccan ports
- \$127M to National Electricity Office (ONE) to increase the transmission capacity of power inter-connections between Morocco and two neighboring countries (Spain and Algeria) as well as to strengthen domestic network
- \$53M to ONEP to supply drinking water to 70 medium-size communities
- \$30M to develop Akka gold mine in the Atlas foothills
- \$53M to Northern Development Agency (NDA) for upgrading rural roads

3. African Development Bank (ADB)

Based in Abidjan, Côte d'Ivoire (currently operating out of Tunisia) the ADB has operated in Morocco since 1970, having financed some 68 operations with a total investment of more than \$3 Billion. ADB has focused on loans for large infrastructure projects. As of June 2000, the investments were as follows: 1) agriculture (21%); 2) transport (14%); 3) public utilities (16%); 4) industry and banks (8%); 5) social (10%); and 6) support programs to reforms (32%).

Priority areas for current ADB interventions are (a) Support to economic and social reforms (b) Human resources, (c) Infrastructure, and (d) Agriculture and rural development. ADB co-finances many of its projects with the World Bank, the EIB, the AFD, and other donors.

Recent loans include

- The Development of the information infrastructure sector; 2001 (\$100M)
- Strengthening of technical education; 2001 (\$32M)
- Drinking water supply and sanitation Project; 1999(\$27M)
- Airports Improvement and Extension Project; 2001 (\$68M)

Projects currently in the pipeline include

- Development of Capital Markets
- Health Sector Reform
- Interconnection of the Electric Network

ADB disbursement rates for the reporting period 1974-1999 indicate that 76% of loans and grants were disbursed (%87.5 of loans and grants disbursed net annulations).

4. United Nations

The UN has six principal organizations providing assistance to Morocco; The United Nations Development Fund (UNDP); United Nations Fund for Population Activities (UNPFA); The United Nations Children's Fund (UNICEF); World Food Program (WFP), World Health Organization (WHO) and Food and Agricultural Organization (FAO).

UNDP

UNDP is responsible for the overall coordination of UN assistance in Morocco through the Office of its Resident Coordinator. While UNDP does not currently play the broader donor coordination role seen in some other countries, UNDP did publish (prior to 2000) an annual report on donor assistance to Morocco that detailed donor activities, levels of engagement and levels of disbursement. UNDP is at this time collecting data for the years 2000-2002 in preparation for resuming the annual report. There was recently created an interagency task force (USAID is a member) to evaluate information needs and coordinate data collection / reporting functions to the end of producing a single, useful annual summary of development cooperation.

UNDP assistance to Morocco has focused in three principal areas:

- Environmental management and protection including rural water supply
- Promotion of good governance
- Poverty reduction through promotion of enabling environment (including girls education, microfinance)

UNDP currently reports 48 active projects representing a total of \$ 10.8 million of funds committed to date. Under its 2002-2006 strategy UNDP maintains the same broad program priorities with a total program and support investment of \$21.5 million with program investments of \$1.7 million in (a) Environment (\$500M), (b) Poverty Reduction (\$250M), (c) Governance (\$500M), Gender (\$200M) and others (\$250M).

UNICEF

The UNICEF 2002-2006 strategy projects a total expenditure of approximately \$18 million divided into four principal program areas:

- Support for National Priorities (\$3.8M)
 - Education
 - Health
- Support to Children in Rural Areas (\$6.4M)
- Child Protection (\$4.0)
- Promoting and monitoring Convention on the Rights of the Child (\$3.3M)

Under these broad program areas, UNICEF activities provide assistance in maternal/child health care; early childhood development; formal and non-formal education; and basic health care, using integrated and pilot projects in rural, urban and peri-urban settings.

UNFPA

The goal of UNFPA's 2002-2006 \$12 million program is to contribute to improved reproductive health, including family planning and sexual health. The program will focus activities in nine provinces in the Marrakech-Tensift-Houaz-Azilal region and include two sub-programs: reproductive health and population and development strategies.

FAO

FAO's 2002-2007 strategy focuses on agriculture, fisheries, forestry and integrated rural development. While FAO supports a range of interventions in each of the above priority sectors, there is an important emphasis place on human capacity and institution building that includes strengthening local production cooperatives and developing chambers of agriculture and artisans.

WFP

Over the past three years, the WFP has implemented a project to promote girls enrollment in school through \$6 million of food donations made directly to families in 14 provinces in support of encourage and maintaining enrollment of girls in schools.

Other UN Offices

The World Health Organization (WHO), United Nation Educational, Scientific and Cultural Organization (UNESCO) and United Nations Industrial Development Organization (UNIDO) also implement programs in Morocco though their work is not detailed for the purposes of this report.

5. Arab Funds

Morocco has benefited from strong support through a series of loans in support of infrastructure development and limited technical assistance from several multilateral Arab funds. Principal among these are the Islamic Development Bank (IDB), the Arab Fund for Economic and Social Development (FADES) and OPEC Fund for International Development. FADES is the chair of a coordination group that brings together multilateral and bilateral Arab donors on a bi-annual basis to share information and coordinate actions. Multilateral Arab fund investments in 2002 include:

- Rural electrification (PERG) - \$53.5 M (IDB)
- Auto-route Casablanca-El Jadida - \$49.5 M (FADES)
- Construction of dam at Sidi Said - \$90 M (IDB, FADES, KFAED)
- Strengthen network of water sources for Rabat and Casablanca through increasing reservoir capacity and dam construction - \$15M (OPEC)

B. Bilateral Donors

1. France

France remains the principal bilateral partner of Morocco with OECD reported gross annual ODA assistance level (2000-2001 average) of \$212M.

The primary channels for French assistance are the French Development Agency Group (AFD, PROPARCO, FFEM), and the Cultural, Scientific and Cooperation Service (CSCS). The Economic and Financial Mission of the French Embassy coordinates the economic assistance programs.

The French Development Agency (Agence Française de Développement -- AFD) has three priority sectors for programming:

- Water and environment: drinking water supply system in rural regions or in small centers; irrigation, equally with the preservation of water resources, and water treatment
- Social and regional development interventions in favor of rural populations and disadvantaged urban settings
- “Upgrading” and support for the private sector, with PROPARCO
 - Financing of private infrastructures
 - Partnerships with banks and operators of the financial market with the establishment of new risk share products
 - Support of large companies in their development and modernization plans
 - Active partnership with venture capital companies and investment funds

AFD currently has 15 active projects representing an investment \$356 million in the following sectors:

- Rural Electrification and Euro-Med Electric Connection (\$149M)
- Water Resources Management and Use (Includes water for irrigation and water treatment) (\$137M)
- Professional Training (\$17M)
- Rural Road Networks (\$26M)
- Resource Management and Conservation (\$10M)
- Housing Development (\$17M)

The AFD finances projects through sovereign loans with a 35% preferential terms component. The terms are reviewed each year based on the evolution of current market rates. Since February 2002, loans are granted at 2.5% for 20 years with a 7-year grace period.

PROPARCO is a subsidiary of AFD that specializes in the private sector financing, supporting financial institutions and industrial and commercial companies through medium or long-term loans, equity holdings, guarantees, mandate of arrangements and capital structure activities. Two broad investment categories are:

- Direct Loans to Enterprises (\$95M)
- Loans to Credit Institutions (\$68M)

The French Fund for the World Environment (FFEM) supports six projects in Morocco: Preservation of coastal natural spaces in the Mediterranean basin; salvaging and recycling of refrigerating CFCs; economy and management of wood-energy; Ifrane national park project (with AFD); pesticide control and management, and; decentralized rural electrification using photovoltaic cells (with PERG).

The Cultural, Scientific and Cooperation Service (CSCS) manages French grant assistance for cultural, scientific, technical and educational programs in Morocco. Oversight is provided by the French Ministry of Cooperation and the program is managed locally through the office of the Cultural Counselor. Annual investment is approximately \$20 million and cooperation programs are divided into three sections:

- The Educational Cooperation section includes basic education, technical education, excellence training, scholarship programs, educational system reform and management, youth and sports.
- The Scientific and Technical Cooperation section support exchanges between French and Moroccan administrations in most social and business fields and provides grants in support of a range of development projects. Priority areas of intervention at this time include (i) support for upgrading of the Moroccan Economy, (ii) promotion of the rule of law, (iii) higher education and scientific research, and (iv) social development.
- The Cultural and Artistic Cooperation section supports the management and diverse programs of a network of French Institutes. Cultural cooperation supports: television, film and print media; development of libraries nationwide; training and support for Moroccan authors; support for large cultural festivals; museum development and a range of cultural activities and professional exchanges.

The CSCS also oversees two educational networks totaling 23 French educational establishments, with 1,300 teachers and administrators providing French language instruction at preschool, primary, middle, secondary and specialized training levels for close to 18,000 students, two-thirds of whom are Moroccan.

2. Japan

Japan is Morocco's second most important bilateral donor in terms of assistance level with OECD reporting gross ODA (2000-2001 average) of \$119 million. Japanese assistance comes in the form of non-reimbursable technical assistance through the Japanese International Cooperation Agency (JICA), infrastructure support loans through the Japanese Bank of International Cooperation (JBIC, managed out of Paris) and an ongoing small project assistance fund managed by the Embassy of Japan.

JICA implements grant programs in Morocco in four priority areas. These are (a) Rural Development, (b) Major Industry Support, notably fisheries, (c) South-South Cooperation and (d) Human Resources Development. Emphasis is on infrastructure support, short and long-term technical assistance and training support in Morocco and Japan. The dominant sector is fisheries, through significant investments have been made in developing road and water infrastructures. Japan is exploring opening a new sector with a basic education support project currently under development to begin in 2004-2005.

The JBIC has provided extensive loan assistance for large, infrastructure projects also support by the World Bank, EU, France, Germany and others. Since 1988, these loans have included support of the National Rural Electrification Program (PERG), (\$99M), the National Program to Provide Potable Water to Rural Populations (PAGER) (\$180M+) and the Mediterranean road project (\$114M).

The Japanese Embassy also manages a small projects assistance fund that provides approximately \$1 million annually for a wide range of community-based activities undertaken by local associations, communities and NGOs.

3. Germany

German assistance to Morocco is overseen by the Federal Ministry of Cooperation and Development and negotiated locally through the German Embassy. Assistance is provided through technical assistance and grants managed by the German Technical Cooperation Agency (Deutsche Gesellschaft für Technische Zusammenarbeit – GTZ) and loan funds managed through the German Reconstruction Bank (Kreditanstalt für Wiederaufbau – KfW).

German assistance is concentrated in three priority sectors:

- Water resources development, management and sanitation;
- Protection of the environment and natural resources, including renewable resources;
- Upgrading of the Moroccan economy, including professional training.

The current agreement covers German assistance to Morocco for the 2002 and 2003 fiscal years. Total program level is \$77 million of which \$62 million represents new funding and \$15 million represent funds reprogrammed from previous commitments. Assistance is divided into loan funds (\$54M) and non-reimbursable grants (\$23M).

Morocco may also draw upon an additional \$44 million of financial credits available through KfW for specific water and renewable energy projects bringing the total assistance package to approximately \$121 million. Total package is equivalent to the 2000-2001 agreement with increases in loan and grant funds and a reduction in available financial credits.

The largest single investment is a \$53 million (half loan and half credit line) for development of the Essaouira wind power generation park. Water resources development, delivery, management and sanitation programs account for more than three-quarters of the remaining funds with two environmental protection projects and one support for economic growth and professional training project completing the package. There is also a small reproductive health HIV/AIDS program.

Several German political foundations promote political education, democracy and the rule of law. Their activities focus on training, exchanges and technical assistance. The Friedrich Naumann Foundation works to promote individual liberty and responsibility and focuses on media and training for journalists. The Friedrich Ebert Foundation works with civil society on political participation, economic development and decentralization. The Hanns Seidel Foundation's programs promote rule of law and administrative reform. The Konrad-Adenauer-Stiftung Foundation supports academic and scientific programs through meetings and conference to promote dialogue and assists young researchers in publishing their works. The Heinrich-Böll Foundation works mostly in Casablanca on issues of gender and helping street children.

4. Spain

Spain is the fifth largest ODA donor to Morocco and third among European countries. Project investments in Morocco for 2003 are \$13.5 million approximately distributed as follows: 45% through direct bi-lateral cooperation, 37 % through non-governmental organizations (NGOs), 13.5% through cultural cooperation and 4.5% through multi-cooperation (mostly with UNIDO).

Spanish assistance is almost wholly directed to the Northern Provinces of Morocco due to close geographic and cultural ties with that region. The largest investment is in the health sector with infrastructure support for hospitals and maternities and a range of technical assistance and training activities. By sector, Spanish cooperation is broken down as:

- *Social infrastructure and services* (52.61% of the proceeds); health sector (22.51%) education (16.66%) water supply and treatment (5.13%), good government and civil community (4.48%) and actions included in other social services (3.83%)

- *Economic infrastructure and services* (7.91% of the proceeds); small and micro companies (3.92%), energy sector (3.39%), and financial services (0.60%).
- *Production sectors* (10.03% of the proceeds), tourism (3.35%), agriculture (2.58%), trade (2.09%), industry (2.01 %)
- *Multi-sectors* (28.31% of the proceeds). rural development (14.13%), multi-sector composition (5.53%) and basic services (1.34%) – women and development (6.61%) and environment and assets protection (0.71 %)

Spanish assistance is characterized by a greater percentage of small projects and extensive partnering with mostly Spanish NGOs in project implementation. The significant participation of Spanish and other NGOs in Spain's assistance has proved especially valuable recently, as disputes between the two countries over islands in the Mediterranean have impeded implementation of bilateral assistance. The Spanish International Cooperation Agency (Agencia España de Cooperación Internacional – AEI) also partners extensively with the Northern Development Agency on a wide range of economic and social development projects.

Reimbursable Cooperation has included Fondo de Ayuda al Desarrollo (FAD) credit lines and debt conversion agreements. Spain provided Morocco with loan facilities in the amount of approximately \$170,000 annually, mostly in support of northern infrastructure development and Spanish industrial development.

In 1996, a debt re-conversion agreement was executed, using private investments, up to the amount of \$40 million. Additional agreements of \$30 million and \$42 million have since been executed.

5. Canada

Canadian development assistance is overseen by the Ministry of International Cooperation and implemented in Morocco by the Canadian International Development Agency (CIDA).

Canada has recently completed its new strategy and is in the process developing specific projects for the period 2003-2010. The total planned commitment of approximately \$28 million is divided between three priority sectors:

- Basic Education (supporting national program to overcome the challenges to increasing enrollment, retention and completion rates for basic education to reduce illiteracy in the 9-15 age; specific interventions under development)
- Professional Training (skills based training curriculum and programs in support of professional training in six sectors with institutional strengthening for professional training system and regional sharing of experiences)
- Citizen Participation (project is still under development but three strategic themes under consideration are gender equality, strengthening public private dialogue and participatory development)

Canada also manages two funds that promote local governance and democracy. These are the Canadian Funds for Local Initiatives that support community based projects and the Fund in Support of Equality that supports projects promoting equality for women.

6. Italy

Foreign assistance is overseen by the Ministry of Foreign Affairs and implemented in Morocco through Development Cooperation Office of the Italian Embassy. Italian assistance is provided through grants, aid credits and a debt swap program.

As of January 2003, Italy reported a portfolio of thirty-nine projects, active or in development, representing a combined commitment of approximately \$144 million:

- \$40 million in grant funds for 35 projects with emphasis on northern and central regions
 - Priority is placed on employment creation, development of social infrastructures, human resource development and strengthening of primary health and education services for disadvantaged populations
- \$104 million in credit aid in support of the Marrakech slaughterhouse, northern roads construction, professional training and credit lines in support of SME finance.

Italy and Morocco signed a debt swap agreement in 2000 under which Italy converts debt in exchange for Moroccan investment in development activities. To date, two swaps for a total of \$100 million have been implemented to finance: school construction and equipment (\$57M); PAGER (\$4); National Rural Roads Program (PNRR) (\$16M); health sector support (\$9); program to upgrade Bour perimeters (\$9M); social housing program (\$5M); northern province development program (\$15M)

7. Other Bilateral Donors

a. Arab Cooperation

The Abu Dhabi Development Fund, the Kuwait Fund for Economic Development (KFAED) and the Saudi Fund for Development provide loans of up to 50% of development project cost. They are members of the donor coordination group chaired by FADES through which assistance programs are coordinated and information shared on a bi-annual basis. Recent loans to Morocco include:

- Participation in northern road project for roads from Asfrou-Ras Kebdana (\$56 million - Abu Dhabi)
- Dam construction at Raouz (\$36.5M - KFAED)
- Dam construction at Sidi Said (\$65.5 - KFAED/FADES, \$16.1 - IDB)
- Extension, equipment and maintenance for central hospital unit I Marrakech (\$18.9M - Saudi)

The Saudi Development Fund also provided \$8 million in grant funds in the past years for construction of a hospital cancer unit and road construction in Rabat region.

b. Belgium

The Technical Cooperation Office manages a portfolio of development projects that focus on the Souss-Massa -Draa region. Twelve active projects representing a total grant investment of approximately \$28 million are under implementation in four principal sectors: water resources development, management and sanitation; environmental protection; rural development; professional training. Belgian assistance also includes funds for applied research, inter-university cooperation, and support for scholarships and participation in training activities.

C. Non-Governmental Organizations

International non-governmental organization (NGO) assistance levels remain modest. Spanish assistance works extensively through NGOs, supporting approximately fifteen Spanish and international NGOs directly implementing a range of development programs in cooperation with local departments, offices and organizations. Other NGOs, notably Catholic Relief Service, Helen Keller International, AMIDEAST, ENDA-Maghreb and The Near East Foundation target grass-roots development programs and promote civil society strengthening. Private foundations, notably German, promote political processes, media, and human rights to strengthen civil and civic society.

There has been a dramatic increase in recent years in the number of NGOs and local associations in Morocco. These organizations focus on a wide range of issues from human rights and economic promotion, to rural development, literacy and resource management. Most are formed around a particular area of interest or target a specific region and their institutional experience and capacities are limited. There are a number of associations and NGOs (e.g. AMSSED, AMAL, CGEM) that have partnered extensively with USAID and other donors in targeted programs in specific regions or sectors. As their sophistication develops, a greater number of NGOs should play an increasingly important role in national development.

USAID has worked closely with a number of NGOs in promoting innovative grassroots development programs for mostly rural population. Catholic Relief Services, Near East Foundation and Helen Keller International currently receive USAID support for local development programs in priority regions, notably in the Souss-Massa Draa.

There is extensive and growing collaboration with the state supported Northern Development and Social Development agencies in programs targeting social development priorities in local communities in collaboration with local governments, associations and NGOs. Their local knowledge and extensive networks facilitate donor effective outreach to small, mostly rural, communities in support of social and economic development programs.

IV. ECONOMIC GROWTH

1. Overview

There is a broad consensus at the national and international level on the importance of increasing economic growth. Following a period of structural reform and buoyed by favorable climatic and macro-economic environment, Morocco benefited from significant economic growth levels in the 1980s. Despite success of reforms and overall sound macro-economic policies, Morocco was unable to maintain these growth levels through the 1990s with growth dropping to barely 2% in real terms due to a combination of adverse external conditions (notably climatic as economy is heavily dependent on rain-fed agriculture) and limitations in the long-term impact of reforms previously undertaken.

Current national plans have set a growth rate target of 5% annually and Morocco is undertaking a wide range of reforms while promoting economic integration into the global economy through free trade agreements with the European Union and other North Africa and Middle East countries. Morocco is also in the process of developing a free-trade agreement with the United States.

The following summary of donor activity will summarize a broad range of investments that all impact on promoting economic growth. The observations and recommendations section will focus on promoting trade and investment.

2. Donor Activity

The World Bank has identified enhancing conditions for economic growth and private sector development as a priority sector for intervention. The World Bank currently supports a significant project portfolio in support of economic growth. Analytical and advisory services include policy notes and studies that focus on economic growth, policy development and reform and private sector promotion.

Active Reform and infrastructure projects that promote economic growth include:

- Information Infrastructure Sector Development (\$65) to support government's agenda to liberalize telecommunications and postal sectors
- Legal and Judicial Development Project (\$5M) to support improvements in the legal framework and the performance of the judiciary in business related activity.
- Railway Restructuring Project (\$85M) for the preparation and implementation of national restructuring plan to liberalize sector, increasing performance, reducing costs and promoting private ownership
- Fes Rehabilitation Project (\$14M) to develop local infrastructure in support of conservation and economic development

Other projects focus on promoting economic growth in coastal tourism, marine fisheries and agriculture production.

The *European Union* has the largest program promoting trade and investment, targeted at supporting of the successful creation of the free trade zone by the year 2012. EU interventions address the policy reform, workforce, financial, and legal obstacles to increased trade and investment and provide support to strengthen national infrastructure and promote enterprise development.

Active policy and reform investments that impact on promoting investment and economic growth include:

- Public Administrations Reform (\$85M)
- Judicial Reform (\$31M)
- Reform of the Transportation Sector (\$70M)
- Structural Adjustment of the Water Sector (\$127M)
- Structural Adjustment for the Financial Sector (\$53M)

Other EU project support a wide range of actions to promote trade and development. These include, amongst others:

- Euro-Morocco Enterprise (EME) program supports development of small and medium size enterprises (\$23M)
- Support of Moroccan Industries to increase competitiveness; (\$65M)
- Support to guarantee institutions to facilitate access to credit (\$32M)
- Support for housing development in Tanger (\$7M)
- Workforce development through OFPPT (\$53M)

European investment in infrastructure includes road networks in the Northern provinces (\$90M – EU; \$64M - Italy) and EIB loans for Port Infrastructures (\$31M), Electricity Grid connections (\$127M), Road upgrading in the north (\$56M), and Akka gold mine development (\$31M).

French assistance in the economic growth sector is mostly through the AFD affiliate PROPARCO, which specializes in private sector support through loans to businesses (\$95M), refinancing of credit and lines of credit with major banks (\$68M) in support of business lending and small and medium enterprise development. The French Economic Mission manages a guarantee fund (\$30M) providing medium and long-term credit to facilitate upgrading of small and medium enterprises.

AFD with EU, Japan, Germany, ADB and Spain, invest in development of the electrical network and interconnections to diversify sources and reduce energy expenses for business and private consumers.

AFD, Germany, Canada and EU projects in economic and workforce development support strengthening of professional and industry associations and promote increased private sector involvement in workforce development to develop training relevant to the needs of the private sector.

UNDP projects target poverty reduction in rural and urban centers and UNDP and Italy supports microfinance institutions.

Spain, ADB, Italy, China and others have also extended lines of credit in support of bank lending for SME promotion, though utilization rates by banks remains low, as they continue, under the current investment climate, to invest instead in risk-free government securities. The African Development bank currently has a development of capital markets program in its product pipeline (start-up date unknown at time of publication).

Japan has promoted economic development in the fisheries sector through investment in infrastructure, investment in and support of training facilities and short and long-term technical assistance and training programs. Italy also supports development of artisanal fishing.

There has been considerable investment by World Bank, EU and bilateral donors (notably France, Germany, Japan, Spain and Italy) in increasing agricultural production through water resources development and management and infrastructure support for construction and renovation of irrigated fields. Other investments include Belgium and Japanese technical support in maintenance of agricultural machines, and a variety of projects by, amongst others, FAO, AFD and WB in promoting local cooperatives, associations and NGOs in support of increased agricultural production.

Not mentioned in this section are the very considerable investments in water resources development, management and use that will be addressed under the environment section of this report.

3. USAID Role

At this time, donors speak of USAID's considerable success in developing the microfinance sector. There is substantial interest in working with microfinance institutions by the EU, Spain, SDA and others. Increasing the amount of loans that these very entrepreneurial institutions can provide was cited as one way to "shake-up" the low investment rates by commercial banks in the SME sector. In another example, the SDA cited extending reach of and integrating (USAID-developed) micro-finance institutions into its community based programs as a critical element for sustainable rural development.

Prior to its work in microfinance, USAID developed considerable expertise in the Moroccan agricultural and agribusiness sector under the highly successful Morocco Agribusiness Promotion Activity (MAP) project. Through policy dialogue and agribusiness support, MAP had a significant impact on agribusiness development and provided important support for a wide range of other donor interventions. This experience should prove very useful in FTA development and implementation.

USAID's significant experience in this sector has been expanded through recent activities including the Investors Roadmap Activities, support for commercial and appellate courts, rural tourism promotion and regional investment center development.

With its strong experience at the policy and project level in a wide range of economic development activities, USAID is once again in a position to make contributions far in excess of its financial resources in the area of promoting increased trade and investment.

4. Observation and Recommendations

There is considerable opportunity and need to pro-actively coordinate with other donors in promoting increased opportunities for domestic trade and investment. Most notably, the EU and the United States both have primary objectives of successfully developing free trade zones and increasing trade and investment. Given the extent and variety of activity in this arena, any investments will require consultation with other donors, partners and national counterparts to ensure that project activities build synergy and not work at cross-purposes.

The following is divided into (i) policy and legal reform activities, (ii) promoting a positive investment climate, and (iii) specific agricultural and rural interventions related to FTA.

Policy Reform

Legal and policy reform were cited by donors interviewed as the foremost obstacles to increased trade and investment. For example, funds in support of SME lending are available but the policy environment does not encourage their utilization. Reform needs most cited included labor code reform, judicial reform, administrative reform (changing relationship between government and business) and financial reform to facilitate SME lending. In looking ahead to the Morocco – U.S. FTA, agricultural reform needs will also need to be evaluated

Pro-active communication with the EU and member states will help to foster consistent policy advice and support needed legislation and reforms. USAID's "Investor's Roadmap" activities and strong record of policy dialogue with the Government of Morocco can provide considerable assistance to and leverage the large policy reform investments of the EU and WB.

With its limited resources as compared to the large multilateral investments, USAID will need to focus its future activities on policy interventions to items of special importance or elements unique to the Morocco – USA FTA agreement while maintaining the "Roadmap" dialogue and ongoing contact with the EU and WB supported reform programs.

Given the variety of policy interventions foreseen under the FTA process and the number of the agencies and funding sources involved, USAID (or USG through another office) may wish to take a page from the EU experience and establish a specific resident policy and advisory component that only deals with FTA. Potential benefits include:

- simplify FTA related relationship with GOM by providing a primary contact
- support, coordinate and follow-up on the various U.S. and other interventions
- provide ongoing follow-up to assist implementation of agreed upon actions to expedite process
- promote cooperation amongst multilateral and bilateral partners and donors on the policy dialogue with the GOM and in coordination programs in areas of common interest related to trade and investment

Business Climate

USAID's plan to invest in consolidating its successes to date in the microfinance should permit USAID to exit this sector formally as there is growing interest in microfinance and working with microfinance activities amongst donors, national agencies and NGOs. In terms of financial guarantees or support for SMEs, donors have indicated that sufficient funding guarantees are available but what needs to happen is a change in the investment climate. Therefore, the policy dialogue and continuing to build relationships with private lenders seem the critical elements at this time.

The need to strengthen the commercial and appellate courts and judicial reform in general were cited as critical changes to overcome obstacles to investment by almost every donor interviewed. USAID's judicial reform project focusing on commercial and appellate courts reports excellent process with positive indicators from participants. It has drawn praise from other donors, notably the WB, who noted that the USAID intervention is highly valued by the Ministry of Justice. The program has been extended to include the appellate court of Marrakech.

While there are available resources to continue this project into at least part of the new strategy, expansion of this project into additional regions will require further investment by the government. Given the strong government appreciation of and interest in this project, USAID should explore leveraging the larger EU and WB investments in judicial reform for support to the GOM to specifically expand USAID supported activities into additional regions, possibly with continued with USAID technical assistance.³

Beyond the reform and infrastructure projects, donor assistance centers on: building human capacity through strengthening professional training system; building professional and business associations; technical and financial assistance to strengthen large and small

³ The EU has committed but not yet disbursed funds under its (\$28 million) judicial reform project under the MEDA II program and the World Bank has indicated that it intends to a follow-up program to its current Judicial Reform that focuses on business services with expected approval in FY2005.

private businesses, and; technical interventions to promote exports such as standardization and quality control. Independent of larger administrative and sector reforms, there does not appear to be significant investment in improving the skills of public sector counterparts to facilitate economic growth or to build local public - private partnerships to promote trade and investment.

This is an area where USAID may be able to apply its strategic advantage as an agency with a strong record of combining policy dialogue with timely, innovative, hands-on development interventions that have served as national models and catalyzed other investments to replicate successes and apply best practices and knowledge gained.

Specifically, USAID may wish to consider building on its extensive interventions in building partnerships and strengthening initial and institutional capacities at the local level to implement a hands-on project with the goal of promoting private and public sector capacities and partnerships to create a more positive investment climate in the regional centers. Elements of a program to promote increased local capacities and build a positive investment climate might include:

- Technical assistance and training for regional and municipal officials to facilitate business development processes, reduce obstacles, and strengthen services support to promote trade and investment;
- Continued support to the development of Regional Investment Centers in collaboration with governors' offices;
- Support for development and strengthening of municipal associations to advocate for municipal needs on national level and increase capacities of municipal officials through improved information sharing and exchange;
- Strengthening communication and linkages between business and banking sectors to build capacity of each to respond to the needs of the other;
- Development of local professional, industry and business associations that can be linked to national associations being assisted by EU and member states (including linking local associations with EU information technology support to associations)
- Technical assistance and financial support for SME business development (opportunity to leverage DCA funds);
- Extension and continued strengthening of microfinance institutions;
- Improved public / private partnerships in promoting improved investment climate and in managing key resources (building on River Basin Agency (RBA) development, municipal management and other experiences);
- DCA supported program grants in support of interventions undertaken through private and public partnerships;
- Continued policy dialogue at national and regional and local levels in support of reforms needed to implement an FTA and promote a positive investment climate.

A project to improve the business climate in regional centers could leverage USAID experience and successes in finance, business development, public - private collaboration, policy support for decentralization, resource management and technology. By strengthening the capacity of the different stakeholders in local economic growth and building partnerships, USAID could once again take an innovative, leadership role in developing a model for effective local economic growth.

Working with civil society and the public sector may also provide an opportunity to link local economic development to the broader democracy and governance objectives to build stronger civil society and representative government.

Agriculture

The agricultural sector is widely believed to be the area that will be the most impacted as a result of U.S. – Morocco FTA. The removal of tariffs and other impediments to trade will open Morocco markets to more competitive foreign wheat (and other crop) producers and there will be a need for the local producer to adapt to the changes. Beyond the agricultural sector, other sources of rural income will need to be developed.

In addressing the future needs of the rural farming community, there are good opportunities for donor, government and NGO collaboration. FAO is working to strengthen the capacity of local producer groups and promoting development of "Chambres d'Agriculture." FAO is very interested in collaborating with USAID in this domain. The Agency for Social Development is working to strengthen the capacity of local communities and NGOs in managing change and implementing development activities. France, EU, World Bank, Spain and others partner on local governance and development projects with SDA and NDA, taking advantage of the agencies local expertise and experience.

Given USAID's extensive experience working with NGOs and through NGOs to reach local communities, partnering with a group such as SDA (not an NGO) or an NGO with regional or national programs targeting rural communities would make sense in designing and developing future programs in this area.

The World Bank is looking into safety net issues for rural populations impacted by trade liberalization in Morocco and has significant experience in this area in Mexico and elsewhere. Working with the WB on developing a safety net program would help to mitigate any negative impact of FTA.

One area worth exploring down the line is U.S. private, corporate support for projects helping farmers adapt to the expected changes. As U.S. exports and investment increase, there may be an opportunity to leverage additional assistance.

Promoting rural tourism was mentioned by a number of donors as an opportunity to address the need for increased rural income. USAID's current 3-year commitment to promoting rural tourism will be followed closely by other donors. Once again, partnership opportunities exist here with local associations, NGOs or other similar institutions. Opportunities for collaboration may be worth exploring with AFD or GTZ linked to the development of new national parks and with GTZ, AFD, EU, FAO and other projects for natural resource management and protection.

The critical issue of water resources management and use in the agricultural sector are addressed under the environment section of this report.

5. Conclusion

With considerable international investment in reform, private sector promotion, and increased trade and investment, there are numerous opportunities for collaboration and a need to develop well defined and articulated strategies and projects.

While policy reform is cited as the principal need to promote trade and investment, there is also a need for innovative, catalytic projects that can demonstrate successful strategies for promoting increased trade and investments. Given the limitations on USAID funds and the significant policy reform investments of the EU and WB, USAID may want to apply its strategic advantage in focusing rather on innovative and catalytic projects within targeted regional centers that can be undertaken while large reform programs move more slowly toward implementation.

A specific focus on rural populations in terms of adapting to the changes under FTA agreements and developing new sources of revenue would complement and reinforce region-based projects and national policy dialogue actions.

V. DEMOCRACY AND GOVERNANCE

1. Overview

The Moroccan government has undertaken extensive political and administrative reforms, most notably with the decentralization of authority from the national level to the regional and local governments. Both the political administration and the management of service delivery across sectors are undergoing a transition from a centralized decision making system at the national level to regionally and locally based authorities. At the same time, there has been a dramatic increase in the number of local associations and non-governmental organizations and a resulting increased emphasis on public and private partnerships and participation in development projects.

Donor assistance in the area of democracy and governance is often difficult to separate from other sector interventions. The strengthening of civic and civil institutions and human resource capacity building are regularly integrated into technical assistance, training, infrastructure and material support to achieve specific development objectives. Projects that integrate work to strengthen institutional capacities or increase civil society participation in development do not necessarily separate these activities from the broader objectives.

This report will focus on programs and projects that specifically target reform programs and democracy and governance projects targeting civic and civil institutions and organizations to promote democracy, governance and citizen participation.

2. Donor Activity

Large-scale support for the GOM to implement sector reforms is mostly provided by the *World Bank*, the *African Development Bank* and the *European Union*. The World Bank has supported a number of structural reforms in the past and current programs include reform projects in the health, basic education, judicial, railway, and information infrastructure sectors. Policy reform remains the primary demand of the WB by the Moroccan government and a new administrative reform program is under development for FY 2004 along with recent approval of second information infrastructure reform program and a new basic education policy reform program under development for FY2005 approval.

The European Community under its MEDA programs has committed more than \$600 million to sector reform in support of national programs in the public administration, judicial, transportation, finance, water and health sectors. The EU is also providing support for Migration reform and for the strengthening of the professional training system.

Disbursements levels are low under investment projects for structural reform by the WB and the initial set of reforms under the EU MEDA I Program. With new guidelines for MEDA II, the EU has moved forward with scheduled 50% disbursements on three of four reform projects approved in 2001 and the WB is moving to more flexible program loans that should lessen past obstacles to disbursing approved loans.

The World Bank and the EU have also initiated smaller programs that focus on developing capacities of local organizations and in support of local initiatives. Examples include the World Bank's small grant program, its new Social Development Agency Project in support of decentralized, local projects and EU support for rural participatory development programs and support for human development and social integration of women and handicapped persons.

Since 1998, *UNDP* has worked with the Government of Morocco on a program for governance, providing. Coordinated by the Planning Direction under the Prime Minister's office, the program is also responsible for the development of a national plan for governance. Following a recent meeting between UNDP, other donors, and participating departments and institutions, UNDP has proposed restarting the Thematic Group for Governance to provide a forum for discussion and coordination amongst donors and national counterparts.

Under its new 2003-2010 strategy, *Canada* identifies citizen participation as one of three priority areas along with basic education and professional training. While the project is still under development, three strategic themes are: gender equality, strengthening public private dialogue and participatory development. Canada also manages two funds that promote local governance and democracy. These are 1) Canadian Funds for Local Initiatives that support community based projects up to Dh 200,000 (US\$20,500) per project, and (2) Fund in Support of Equality that supports projects promoting equality for women up to \$C25,000 (US\$17,500)per project.

The *UNICEF* program for 2002-2006 includes programs protecting children and promoting their rights under international convention and provides support for building capacities of and through local non-governmental organizations.

The *French Cooperation and Cultural Service* (CSCS) provides technical assistance and training in support of judicial reform and in territorial management and decentralization. SCAC also manages a small projects fund currently totaling \$170,000 annually in support of Moroccan Development Associations. Priority is on women in development and access to education programs. Other key areas include youth and sport, literacy and culture.

The *Japanese Embassy* manages an ongoing small project assistance funds that provides for approximately \$1 million annually in support of projects undertaken by local associations and organizations. Investments in 2001 ranged from approximately \$20,000 to approximately \$80,000 and often support equipment and local infrastructure development. Examples in 2001 include potable water supply, school improvements, ambulances and equipment for surgical blocks, rural road improvement and renovating irrigated perimeters.

The *British Embassy* manages a small project assistance fund of approximately \$250,000 annually. Funding is through Moroccan agencies, international and Moroccan NGOs and associations for projects that focus on human rights, good governance and the environment. Britain also provides support to Al Akhawayn University for an e-government portal prototype and to the Secretary of State under the Prime Minister's Office in charge of Post and Telecommunications Technologies and Information (SEPTTI) for an e-government website listing GOM calls for tender.

Several German political foundations promote political education, democracy and the rule of law. Their activities focus on training, exchanges and technical assistance. The Friedrich Naumann Foundation works to promote individual liberty and responsibility and mainly supports training for journalists. The Friedrich Ebert Foundation works with civil society on political participation, economic development and decentralization through organization of seminars and conferences while the Hanns Seidel Foundation's programs promote rule of law and administrative reform, and the Heinrich-Böll Foundation works mostly in Casablanca on issues of gender and helping street children.

There is considerable and growing collaboration between donors and the Social Development Agency and the Agency for Development of the North - both state supported agencies charged with implementing community based development programs and projects. Programs cover a wide range of sectors and activities with the shared element of building local capacities and strengthening civil society participation and development.

There has also been a significant increase in the number of local and professional associations and non-government organizations in recent years. Civil society organizations address a wide range of democracy and governance activities including: human rights; social and political integration of women; citizen participation; political reform; electoral education, participation and monitoring, and; local economic development.

3. USAID Role

USAID, as a member of the Democracy Working Group of the U.S. Embassy , supports an ongoing program of projects promoting democracy and governance. The program is implemented with American, international and national non-governmental organizations. The program focuses in four areas: civil society, rule of law, governance and elections. Current activities target: local NGO development; ethics in government; training of inspectors general; strengthening of political parties; training for new members of parliament; legal literacy; human rights; municipal elections and decentralization. USAID also implemented a range of activities in support of the parliamentary elections of September 2002.

The U.S. mission also manages a Citizen Participation Grants program providing from \$500 to \$25,000 for projects to improve democracy and civil society building. Areas include human rights, women's rights, rule of law, political pluralism, and democracy at the grassroots level, especially as these areas support Moroccan priorities that relate to civil society: job creation, economic growth, education, housing, and government reform.

Examples where USAID is working to promote improved governance include programs to strengthen commercial and appellate courts, develop regional investment centers with local governors' offices, decentralization and local governance, and support to the telecommunications regulatory agency. These activities are augmented by the high priority USAID places on integrating institutional strengthening, organizational

development and improved governance through stronger public and private sector participation into all project interventions. These include strong civil society participation in, for example, river basin agency development and primary school management, and strong private - public partnerships in promoting sound policies for economic development.

Working with international non-governmental organizations, USAID also supports a range of local projects, mostly in the target Souss-Massa-Draa region, that promote rural civil society and development, good governance and public private partnership, and gender and development.

4. Observations and Recommendations

While several donors have specific democracy and governance elements in their strategies, documentation on these project interventions and investments were generally included under other sector reporting. There is, however, considerable support for improved governance and increased participation of civil society in programs and projects supported by all donors. These activities serve as key sectors of intervention in WB, UNDP, Canada and UNICEF programs. Good governance is at the heart of policy reform support. Technical assistance and training to strengthen capacity of implementing departments and agencies as well as local institutions and organizations is a key component of projects across all sectors as is capacity building for government officials and private citizens.

With governance activities often integrated into projects rather than as stand-alone activities, it can be difficult to identify gaps to be addressed or specific opportunities for program collaboration in building good governance. As mentioned under the economic growth section of this report, there does not appear to be significant investment in strengthening the capacity of local governments to partner effectively with the private sector and civil society to achieve common goals in support of building an improved investment climate.

Building local government capacity would also create opportunities to complement and reinforce other programs and projects aimed at strengthening capacities in individual sectors and help to strengthen local application of national reform programs. Specific opportunities for collaboration would exist with programs being undertaken to manage resources or strengthen local infrastructure that will depend on sound local government management for long-term success.

In reviewing USAID's draft strategy, there appear to be opportunities to integrate good governance activities into a regionally based hands-on project promoting economic growth and employment creation. USAID is in a strong position to build on investments to date in support of regional investment centers, regional governors' offices, public - private partnerships in resource management, municipal management and in the "Roadmap" policy dialogue.

Forums for increased citizen involvement in local government planning and decision making, capacity building for elected and appointed regional and local officials, and development of municipal associations and advocacy networks are all proposed activities that would promote good governance, strengthen local democracy and reinforce efforts to create an improved investment climate. Linking these activities with DCA support for specific local interventions would provide opportunities for communities and organizations to apply new knowledge.

Integrated activities targeting good governance and an improved economic climate in regional centers can be reinforced by the ongoing work of USAID, using Economic Support Funds (ESF) in collaboration with the democracy working group, on the national level in the political, democracy and governance areas noted above, notably in training for political parties and for newly elected officials. USAID's experience and knowledge gained from promoting good governance and an improved economic climate at the local level would provide a solid foundation to help guide policy formulation and implementation at the national level and provide effective models for promoting economic growth and good governance.

VI. EDUCATION AND WORKFORCE DEVELOPMENT

Under the existing set of strategic objectives, basic education and workforce development are not linked under a single strategic objective, with the former focusing on girl's education and the latter residing more closely with economic growth. In light of future program considerations and because of their interconnected importance to employment creation and economic growth, these two areas are addressed together in this report.

Workforce development covers a wide range of activities. Professional training is integrated into development projects in all sectors nationwide and across the spectrum of donor activity. This section focuses on workforce development and professional training in support of economic growth, productivity and employment creation.

Basic Education and Literacy

1. Overview

Quality basic education remains Morocco's greatest long-term development challenge. Morocco's UNDP Human Development Index ranking (123rd) places Morocco behind other lower middle-income countries, largely due to low rankings in the education sector.

While the Ministry of Education has reported gains in primary enrollment (near 100% in first grade) poor educational quality results in 25% dropping out before the 5th grade (48% in rural population) and only 10% making it to the 11th grade. Morocco has one of the highest illiteracy rates (50.1% national and 83% amongst rural women in 2001) of lower middle-income countries.

The government of Morocco continues to invest considerable resources in the education sector and the objectives for the 2002-2004 period represent the scope of the challenge. These include (a) increasing literacy, (b) qualitative and quantitative educational reform, (c) secondary and technical education reform, and (d) developing post secondary education.

2. Donor Activity

The *World Bank* has served as Morocco's principal partner with a series of loans over the past two decades. At this time, the World Bank's involvement is through the Social Priorities Program – Basic Education Project providing \$54 million in support to the Ministry of Education to implement sector action plan and reform agenda. This program was approved in 1996 and remains active. As of January 1, 2003, the undisbursed balance was \$28.3 million. This program is scheduled for completion at the end of 2003. A new project for educational policy reform is currently under development for approval in FY 2005.

Consistent with its strategy to implement policy reform and smaller, catalytic pilot projects, the World Bank recently committed \$4 million to the Alpha Maroc project to test innovative programs to build adult literacy training systems with the goal of halving adult illiteracy by 2010.

The *African Development Bank* has also provided significant support to educational development and reform in Morocco, having committed more than \$300 million since 1967 with disbursements through 2001 of \$152 million. The most recent commitments by the Bank include \$79 million for education reform in 2000 and \$33 million for Strengthening of Secondary and Technical Education in 2001.

The *European Union's* current portfolio includes a \$42 million project to increase educational enrollment, especially for girls and to develop education in disadvantaged urban and suburban areas. The EU has also committed \$8.5 million under its TEMPUS Sempus program in support of higher education reform.

The French *Cultural, Scientific and Cooperation Service* manages an ongoing Educational Cooperation program that includes basic education, technical education, excellence training, scholarship programs, educational system reform and management, and youth and sports. Annual investment is approximately \$6.7 million and current basic education programs support reforms under the framework of the national charter.

UNICEF, under its 2002-2006 strategy, places priority on supporting the Government of Morocco and partners to guarantee access to quality education and primary health care for all children. Under its Support for National Priorities program, UNICEF has committed \$2.1 million in support of basic education while other programs have integrated education support components.

Other donors in the education sector include the *World Food Program* (WFP). Over the past three years, WFP has programmed \$6 million to promote primary school enrollment of girls through direct food aid to participating families in 14 provinces. The *Islamic Development Bank* provided \$5.4 million loan and \$0.34 million grant funds in 2001 in support of women's literacy programs.

Japan continues to move forward in planning for a basic education support project for 2004/2005 and has expressed interest in USAID's work in girls' education and how they might benefit from, and build upon the USAID experience.

Italy, under its debt swap program, retired debt in exchange for GOM investment of \$57 Million in school construction and equipment.

Basic Education continues as a priority under the new *Canada* 2003-2010 strategy. While program is still under development, focus is on supporting national program to overcome the challenges to increasing enrollment, retention and completion rates for basic education with the aim of reducing illiteracy in the 9-15 age group. Assistance is in the "soft" domain of technical assistance and training rather than in the "hard" domain of infrastructure and equipment.

3. USAID Role

Since 1996, USAID has worked with the Ministry of National Education, providing support to implement National Charter reforms aimed at increasing primary school enrollment and completion rates for girls. USAID programs have stressed an integrated approach that works locally, regionally and nationally with teachers, school directors, teacher-trainers, ministry officials, education planners and school communities. Activities have included materials development, training for education professionals, introduction of new technologies and building community involvement in education activities. At this time, USAID has two programs promoting improved enrollment and completion rates for girls in Morocco.

With the current program scheduled for successful completion this year, several important accomplishments are noted:

- MNE funding production and using USAID-developed teaching guides and training modules in Arabic nation-wide
- USAID teacher training modules for computer skills to be used at teacher training colleges nation-wide

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- MNE funding ongoing expenses for internet connections for USAID created multi-media centers at pilot teacher training colleges
- Girls enrollment ratios increased by 48% in first grade and 40% in sixth grade in pilot schools
- 88% of pilot schools have improved facilities through increased involvement of parent-teacher associations

Workforce Development

1. Overview

Donor investment in workforce development has seen a sharp increase in recent years. The Government of Morocco and the international community have identified low workforce capacity as an obstacle to meeting economic growth targets and fulfilling the potential of various free trade agreements being implemented or under negotiation.

Moroccan government support for workforce development is through the Office for Professional Training and Employment Promotion (*Office de la Formation Professionnelle et de la Promotion du Travail* – OFPPT). Under its 2000-2004 development plan (\$110 million), OFPPT is charged with improving the capacity of Moroccan workforce trained through OFPPT institutions, promoting responsiveness to private sector requirements and restructuring the professional training delivery system.

2. Donor Activity

The European Community, under the 2002-2004 National Indicative Program (PIN) has committed \$53 million in support of the national professional training system with priority on tourism, textiles and new technologies for information and communication. The EU has also provided \$3 million in support of the National Agency for the Program of Employment and Competencies (ANAPEC).

There is also significant bilateral donor collaboration in strengthening the professional training system. The French Development Agency (AFD) has provided loan assistance in the amount of \$17 million in support to the national professional training program and to develop professional/industry associations. Under its Support for Universities and Research (*Appui aux Universités et à la Recherche*) program, the CSCS committed more than \$14 million in 2000-2002 to provide professional training to ministry partners in a range of technologies and provide support to post-secondary education reform. During the same period, the CSCS also committed more than \$2 million in support of a pilot program for training of trainers in hotel management and tourism.

Germany has provided support for workforce development through projects supporting vocational education, alternative education and upgrading of Moroccan enterprises. Under its 2002-2004 strategy, Germany is committing \$3.5 million for a Promoting International Competitiveness of the Moroccan Economy project with emphasis on sound environmental management and training to develop professional and industry associations.

Through its Program to Strengthen Institutions with a Training Mandate (*Programme de Renforcement d'institutions Ayant Mandat de Formation -- PRICAM*) Canada invested approximately \$10 million in support of training organizations to help adapt their training programs to the needs of the private sector and improve linkages between these institutions and the private sector. Under its 2003-2010 strategy Canada is committing \$10-14 million to strengthen the professional training system through continued development and application of a skills-based approach.

Japan provides ongoing assistance to professional development in the Fishery sector. This includes long-term technical assistance, financial support for training institutions and long-term and short-term training programs in Morocco and Japan. Under its South-South cooperation, Japan supports training on an ongoing basis for a limited number of professionals from Francophone Africa at Moroccan institutions in the fishery sector. Japan is also providing technical assistance and training support to strengthen the Center for Training in Agricultural Mechanization.

Belgium supports workplace-based training (formation par apprentissage -- FORAP) through 12 training centers in the Souss-Massa and vocational training in engine equipment repair through support to seven vocational schools. *Spain* supports a range of professional development activities integrating into smaller projects directly and through NGOs from tourism to supporting centers for training of handicapped persons in the northern regions.

3. USAID Role

While USAID does not have a “workforce development” project in its current strategy, workforce development is a critical element in USAID project interventions. USAID has achieved significant results and developed a wide range of training instruments and programs that will be relevant to future interventions in basic education and workforce development.

USAID has also developed significant expertise in introducing new technologies in support of improved communication in various sectors. This expertise could compliment other interventions and provide opportunities for strengthening workforce development by linking training institutions, private business and industry and professional associations.

4. Observations and Recommendations

Higher education results, higher literacy rates and developing a workforce with the skills demanded by potential investors are necessary if Morocco is to meet its economic growth targets and attract the potential investment levels resulting from free trade agreements.

Investment levels by the Government of Morocco in both basic education and improving the professional training system indicate the importance of these two sectors. The European Community and member states have initiated programs in basic education reform and support for professional training system in recognition of the need to develop both these sectors in support of the EU-Morocco free trade zone.

In looking to increased economic growth and employment creation as part of a strategy to promote trade and investment, there are opportunities for USAID to complement the actions of other donors, address gaps in support for these sectors and leverage existing experience and expertise. It is particularly important that USAID work closely with other donors, notably the EU and its member states as both Europe and the United States are providing development assistance targeting successful implementation of free trade agreements. Examples where USAID investments can compliment and leverage other donor investments to achieve strategic objectives follow.

a. Education

In the basic education sector, USAID has achieved considerable success in both the Training for Development (TFD) project and the subsequent programs promoting girls education. Through integrated, focused pilot programs, USAID has developed and demonstrated strategies, implemented programs, and developed resources which should, at this time, be taken on by the MNE to expand these efforts nationwide. This is already happening with teacher training and other materials. There is an opportunity for USAID to leverage its successes through dialogue with the Japanese International Cooperation Agency, which has expressed interest in building upon USAID's work in developing its new basic education project.

In light of the significant accomplishment of current programs and its excellent working relations with MNE, USAID is in a position to capitalize on successes to date in support of a new intervention in the education sector. Given future program priorities and resources, any project would need to have a very specific focus, address gaps in donor assistance and have potential for national impact leading to building a more qualified workforce.

USAID identified in its draft strategy a strategic opportunity to bridge gap between primary education and professional training opportunities through building the capacity of school directors to assume legislated broader responsibilities, to integrate communities into school management, and to expand programs to include literacy, teacher training and other activities in response to community needs.

A program focusing on strengthening the capacity of school directors, and through them, participation of local communities meets the criteria of an innovative, limited, cost-effective intervention with potential for national impact. It also provides USAID with the opportunity to leverage its considerable experience in these areas outside of Morocco and reinforces broader education and education management programs being undertaken by the World Bank, the European Union, and other multi-lateral and bilateral donors. Workforce development begins with an educated population.

A project to strengthen the capacities of the individuals most responsible for assuring quality education in the schools and increasing participation by the communities they serve draws upon USAID's comparative advantage in implementing hands-on, catalytic programs and warrants serious consideration under a strategy to promote economic growth and create employment.

b. Workforce development

Close collaboration with the OFPPT, other government offices, the European Community and key bilateral donors (notably France, Canada and Germany) will be critical in developing a workforce development strategy. Significant donor investments in the professional training system (infrastructure and content) and support for developing professional and industry associations to promote private sector participation in the professional training system provide an opportunity for USAID to focus on key FTA sector interventions that benefit from and complement the interventions other donors. With national and donor emphasis on tourism, textile and new technologies for information and communication, these sectors are already targeted to receive considerable workforce training support and investment in professional and industry associations.

Under current priorities, the agricultural sector does not appear to be receiving comparable workforce development nor professional and industry association support. While this may well be because the agricultural training system is viewed more positively, there is the risk that the current programs are not suited to respond to the anticipated impact of the FTA on this sector. There will likely be significant and different workforce development needs for the Moroccan farmer to be able to respond to new investments, adapt to needed changes in crop production and support transition out of farming where necessary. In assessing the needs of this sector, it is recommended that USAID also dialogue with FAO, which has a variety of skill-building interventions including strengthening of chambers of agriculture and local cooperatives and organizations, and has expressed interest in collaborating with USAID.

Working in the agricultural sector places an emphasis on rural populations, those considered likely to be most impacted by FTA agreements. Any intervention in rural agricultural workforce development could be linked with ongoing support for rural tourism and other projects to help mitigate potential FTA impact. A focus on rural workforce development could also complement urban and peri-urban industry and technology focus of other donor workforce development programs.

One area that USAID may wish to explore, applying its considerable expertise and comparative advantage, is the introduction of new technologies in support of improved communication between private business, professional and industry associations, and the training institutions working to provide the workforce with appropriate skills and competencies. This could complement other donor and government programs and be leveraged in the future to support business development and improved competitiveness.

While promoting private sector involvement in the professional training system is a critical need, there is also a real need for professional training and workforce development for the public sector partners of private industry to build their skills to develop a positive investment climate and improve public private partnerships. USAID work to date in this area falls more closely under Economic Growth and this point is addressed further in that section.

Given the volume and scope of interventions currently underway in support of workforce development, a more detailed analysis needs to be undertaken in collaboration with government and donor partners to identify how USAID can best complement other interventions and respond to the specific needs identified under the FTA agreement.

c. Literacy

While major donor activity is limited in literacy, donors report that there is considerable investment in improving literacy by local NGOs, other organizations and through national programs. Literacy is often a sub-component of rural development and other projects and interventions are very local in nature.

Given the very localized nature of literacy training, government intervention in this sector and donor support already being provided, this does not appear to be an area where USAID's limited resources can best be applied.

5. Conclusion

Building a stronger, more educated and capable workforce is one of the foundations of promoting increased trade, investment and economic growth in Morocco. The high level of national and donor interest and investment in these areas provides real opportunities for increased results through development of coordinated and complimentary programs.

The ability to leverage resources in support of an activity often comes as a result of successful interventions. By building on successful work in primary education and on public-private partnerships in communities, USAID may want to leverage experience and success to date in addressing public and private workforce development needs of regional centers and improving quality of basic education primary through strengthened school leadership management and community involvement.

VII. ENVIRONMENT AND WATER RESOURCES MANAGEMENT

1. Overview

Water resource development and environmental resource management and protection represent priority areas for most of the major donors. There has been considerable investment by donor agencies and investment banks in support of providing potable water and in water resources development in support of large and small scale irrigated agriculture to reduce economic dependence on rain-fed agriculture. While the large majority of investment in this sector is in water management and use, including treatment, there is continued strong support for resource protection, notably mountain, forest and coastal environments.

Water is treated as a stand-alone sector in several donor portfolios. For the purposes of this report, water management and use is considered as an element of the environment sector. By water management and use, this report refers to the wide range of water related interventions including: water resources development and delivery infrastructure for communities and agriculture; programs to provide potable water; water resources protection, and; water treatment and recycling.

2. Donor Activity

The EU is the largest donor in the environment sector with \$251 million committed for various projects, (notably a \$127 million water sector reform project). Projects focus on river basin development and management, delivery of potable water, water treatment, increased agricultural production, protection and management of forest ecosystems, and watershed management. The EU also supports projects to establish systems for the protection and extension of the Argan tree forest to benefit women's cooperatives.

The French, through AFD and FFEM have a large number of projects in the environmental sector. Together, their active commitment is \$152 million. AFD loans finance projects for provision of potable drinking water, dam construction, developing water resources for agricultural production and improving urban water management and quality. AFD and FFEM collaborate on the creation of a new national park while FFEM focuses on resource management of forests and coastal zones as well as environmental technology including wood energy management, Ozone layer preservation, pesticide management, and recycling.

Water resource management and use and natural resource management are priority areas for Germany. Current projects in area of water resource management and use total approximately \$54 million. An additional \$15.8 is invested in other environmental projects including management and conservation of argan trees, support of management of natural resources and anti-desertification work in the Draa Valley. Alternative energy source development is supported through loans and credit instrument for construction of the Essaouira wind power generation park.

The World Bank has an active commitment of \$111 million for irrigation, sewage systems, water quality control and training for sanitary education campaigns. The WB is also working on participatory approaches to improve land use and natural resource management in mountainous areas.

The ADB supports drinking water supply for the towns of Bouznika, Tan Tan, and Tiznit and the El Ouatia Centers. Belgium is working in improved and increased access to drinking water and water sanitation, notably in Ouarzazate and Tarfaya.

In addition to providing technical assistance for management of water resources, FAO (\$13M) has two projects in water management and use. FAO supports technical assistance in floodwater utilization and training programs for the development of drinking water supplies and large-scale irrigation. UNDP supports a range of environmental conservation and protection projects, the largest of which are for conservation of biodiversity in the high Atlas (\$4.3M) and conservation of ecosystems in humid zones (\$2.9M).

There has been considerable investment by international investment banks in the Program for Providing Potable Water for Rural Populations (PAGER) project. In addition to support from development programs of France, Germany, Belgium and other countries, the JBIC, WB, EIB, KfW, ADB and BID have all contributed to this fifteen-year effort to reach 95% of the population with potable water by 2010. EIB also invests in the project to provide potable water to 19 small urban centers.

Other donors

AECI (\$7M) integrates water management and use into their projects, mostly for wastewater collection and draining systems, drinking water supplies, and rational use of irrigation water. JICA (\$4M) has projects supporting potable water for targeted rural populations.

3. USAID Role

USAID has worked extensively in the environment and water sector in the past in a variety of projects including: developing irrigated agriculture (Tadla Resource Management Project); soil erosion control in the Rif Mountains, industrial liquid waste pollution (Doukkarat control in Fez chromium recycling), municipal waste-water treatment and reuse and in urban environmental management with the Municipal Infrastructure bank supporting development of a National Shelter Upgrading Agency (ANHI).

The Draga Wastewater Treatment plant became fully operational in 2001 with more than 10,000 residents benefiting from reduced water pollution. Treated wastewater has increased available water supply for farmers, reducing their costs and increasing productivity.

USAID's current strategic objective for water centers on the Improved Water Resources Management in the Souss-Massa River Basin (SIWM) project. This project reports ongoing success (among others) in successfully establishing a River Basin Agency (RBA), promoting best practices in water resources management and engaging civil society participation in water resources management to build public and private partnership amongst stakeholders.

Policy and management changes as a result of project efforts include:

- GOM policy and planning shift from water supply management to water demand management
- Recognition that drought must be addressed through risk management rather than crisis management

4. Observations and Recommendations

Water resource management and use remains a priority for many donors with considerable investment in water supply for communities and agriculture, and water treatment. There are specific projects by EU, its member states, and others that target urban water supply and treatment that may offer excellent opportunities for collaboration or as strategies for local resource management when looking at local governance and economic development.

The current RBA development strategy seems to complement well activities of other donors through participatory local management of important water resources. Building strong RBAs should enhance opportunities for cooperation with other projects by the RBA and civil society. Shifts in water management strategies from supply to demand management will result in more efficient utilization of scarce water. The experiences gained through the private – public participatory process of RBA development can be built upon in promoting public and private partnerships to improve the economic climate and promote trade and investment.

With the planned completion of the SIWM project in September 2004, the project will meet its objective of establishing a sustainable and participatory River Basin Agency. The WB and GTZ indicated that development of a River Basin Authority will be included in their list of projects under development. The European Community, under its \$120M water sector reform, targets improved management of river basins as a priority, with the creation of river basin authorities as a key element of the strategy. These large investments provide an opportunity for USAID's pioneering work in RBA creation to share best practices, successes and challenges to guide and assist in the creation of additional RBAs.

The decision to fold water related actions under the larger economic growth strategy with targeted interventions in support of improving water conservation technologies for rural communities and water-intensive sectors is consistent with the goals to promote economic growth and to assist rural populations under new competitive pressures. In looking at local issues, the best opportunities for partnership appear to be with local producer and community organizations and / or agencies such as SDA and NDA.

VIII. POPULATION AND HEALTH

1. Overview

Continued health sector programming is not envisioned by USAID under the new strategy. At this time, USAID has decided to complete the current health program in support of decentralization of health care systems in the Souss-Massa-Draa and Tanger-Tetouan regions along with interventions in social marketing and private sector support in the area of reproductive health and in support for the national program on micronutrients.

USAID has invested considerable resources over time in a range of interventions in support of primary health care, maternal child health care, reproductive health care and related concerns. Other donors continue to invest in the health sector with programs that target large policy reforms and medical insurance coverage, to community-based interventions in support of primary health care delivery.

2. Donor Activity

The EU and the WB are currently undertaking the largest investments in the health sector. The major EU program is the MEDA II \$53 million support for medical coverage program to strengthen the primary health system, improve access to primary health care, strengthen financial viability of health sector, and among other interventions, help implement an obligatory national health insurance program for populations able to participate. A smaller project under MEDA I invests \$ 21 million in support of decentralization of the administration and management of health services.

The World Bank has an active health sector reform project with approved funding of \$66 million to improve the efficiency and the quality of care in eastern region and strengthen policy formulation and sector management capacity. As of January 1, 2003 only \$4.3 million has been disbursed and the project has a projected closing date of December 31, 2003 at which time project and remaining funding would come to an end. Given the national priority to institute a national health insurance program, there is a possibility this project may be extended in support of this effort.

The United Nation's Population Fund's 2002-2006 strategy finances \$12 million to contribute to improved reproductive health, including family planning and sexual health. The program will focus activities in nine provinces in the Marrakech-Tensift-Houaz-Azilal region and have two sub-programs: reproductive health and population, and; development strategies.

The Spanish Agency for International Cooperation supports a range of health projects in northern Morocco under its bilateral programs and through Spanish NGOs. Total investment represents approximately 10% of Spanish development assistance and includes support for renovations of hospitals and maternity centers, hospital and maternity management and administration and maternal / child health care in northern regions.

The Japanese International Cooperation Agency (JICA) supports improved reproductive health services in rural communities through technical assistance and renovation of 21 obstetric clinics, including provision of medical equipment and ambulances.

UNICEF's new strategy includes a program for support of national priorities in the health and education fields (\$3.8M combined) and a Child Survival and Development Activity (\$4.4M) to be determined on the basis of information furnished under the education and health priorities project.

Belgium supports a primary health care project in the Ouarzazate and Zagora provinces (\$3M) to improve primary healthcare coverage through construction or renovation of 26 healthcare centers, training and technical assistance and accompanying support for vehicles and medical and office equipment. Belgium is also developing a new project intervention to provide support (\$2M) to the National STD-AIDS prevention program through technical assistance and training and materials support for social workers and teachers.

The French Cultural, Scientific and Cooperation Service provides grant assistance (\$.8M annually) in support of public health policy, supporting restructuring of the education and training centers of the National Mutual Aid that are opened to young illiterate women and teenage girls out of the school system. Interventions include training, partnership and technological transfer in terms of security and surveillance, hospital cooperation and strengthening institutional expertise.

GTZ provides support (\$3.7M) for the decentralization of the reproductive health system and improving response to population needs in reproductive health. Project focus is on providing technical assistance and training. Additional funds are provided under the 2002-2004 strategy for HIV/AIDS education. GTZ has also provided technical assistance and training in training for orthopedic prosthesis makers.

3. USAID Role

USAID, for the past three decades, has been the leading donor in family health, maternal / child health and reproductive health, including social marketing. Projects have, for example, strengthened rural healthcare delivery, improved child survival, supported decentralization and provided effective policy guidance and support. The current project phase promotes sustainability of the national population, health and nutrition program with a focus on effective local management of health services in collaboration with NGOs and health officials. A significant accomplishment in the first year of this final phase is the acceptance by the Ministry of Health of the decentralized focus and the subsequent Ministry work to create similar partnerships with other donors.

Another significant, recent impact of the program is the development by the Ministry of Health with USAID support of a national, comprehensive curriculum for maternity staff with the objective of improving emergency obstetric care.

4. Observations and Recommendations

Given the new direction of USAID programs, no specific recommendations are included. Donors in the health field spoke very highly of USAID interventions and the leadership that USAID brought to health sector development.

IX. LOOKING TO THE FUTURE

While the decline in total development assistance is expected to continue in the long-term, major donor assistance levels should continue at or near to current levels through the projected 2004-2008 USAID strategy period.

The EU will continue to commit significant funds in support of the implementation of the Morocco-EU free trade agreement and other priorities. In addition to the more than \$400 million dollars of grants committed to policy reform and structural adjustment support by the EU under the less restrictive guidelines of the MEDA II Program, the EU, its member states and other donors, will continue to invest in support of economic growth activities that are also consistent with the objectives of the U.S.- Morocco FTA. These include, amongst others: the upgrading of the professional training system; strengthening of professional and business associations; large industry and small/medium enterprise development; private sector loan guarantees, and programs to promote quality control, standardization and normalization to international standards.

These investments are complemented by WB's (including IFC SME support) and ADB's current and planned policy reform programs in information infrastructure, capital markets development and administrative, education, and judicial reforms. The addition of housing reform to the projected World Bank portfolio reflects national priorities and additional investments in housing are expected in upcoming years.

Develop assistance will continue to prioritize the northern regions and major bilateral donors plan to maintain emphasis on water resource management and use, environmental protection and management, integrated rural development and human resource capacity building.

In looking ahead, a challenge for USAID will be to use effectively limited resources to impact on the broad development objectives linked to the free trade agreement and promoting economic growth, while reinforcing and building on political, legislative, legal and administrative reforms already achieved or under implementation.

With both the EU and the U.S. implementing free trade agreements, it will be important for USAID and other U.S. Agencies and Departments to communicate closely with EU counterparts to ensure that programs complement, not duplicate, each other. While the two FTAs will differ, notably in the agricultural sector, both share the objectives of increased trade and investment and in helping Morocco become more competitive in the global marketplace.

The large multilateral investments in policy reform and structural adjustment programs, combined with economic growth support programs on the national level, provide an opportunity for USAID to capitalize on its comparative advantage as an agency with a strong record of combining policy dialogue with hands-on development interventions. A continued focus on practical interventions would promote hands-on applications of skills developed and resources mobilized through national programs in support of workforce and business development.

USAID's draft strategy paper identified several levels of intervention that provide opportunities for practical interventions that will promote economic growth while strengthening local and national governance. This paper has identified a need for donor assistance to increase capacities of public sector counterparts and private sector investors to build stronger public-private partnerships in support of regional economic development and creating a positive investment climate.

This type of "living laboratory" would promote sustainable solutions for improved economic growth in the regional centers and support the policy dialogue with practical experience and knowledge gained. It also provides an opportunity to put multiple reform programs to real-life tests and strengthens local democracy and governance by focusing on both the private and public sector role in economic development.

Responding to the expected impact of the FTA on rural, farming populations is another priority need noted in this paper. Practical interventions in support of helping farmers adapt to these specific changes through developing new skills and alternative sources of income will help to mitigate potential negative impacts, while creating new opportunities for rural populations. Resources permitting, this paper also noted the need for continued strengthening of the basic education system to develop the more literate, education population needed to respond to the workforce needs of an expanding private sector. Focusing on school directors and community participation would, once again, permit USAID to test and develop practical solutions for improving the quality of education.

X. CONCLUSION

Close collaboration with other donors will be critical in implementing priority objectives outlined in the new strategy. The parallel programs of the EU and the U.S. in implementing free trade agreements provide multiple opportunities for coordination to maximize impact, provided that programs of one donor complement and not duplicate those of the other. It will be important to build upon the common elements of the differing FTAs while focusing specific policy interventions on priorities dictated by the particulars of the Morocco – US agreement.

The same collaboration will be important with other donor interventions noted in this report in geographic and programmatic areas of common interest, including business and business services development, workforce development, financial market strengthening and resources management.

USAID is in an excellent position to complement larger national investments by applying its comparative advantage as an agency known for combining policy dialogue with practical, sustainable programs. By focusing resources on practical applications of reform programs and building upon other investments, USAID will provide leadership in developing sustainable solutions to the need for improved local governance, economic growth and increased trade and investments.

USAID has consistently leveraged considerable resources that surpass its development assistance levels as a result of the hands-on and applicable nature of its interventions. By building on its comparative advantage in the new strategy, USAID investments should continue to provide the practical solutions that will leverage additional investment and application on the national level.